



A Registered Limited Liability Partnership
Attorneys At Law
Established 1916
www.hsdlaw.com

S. Morris Hadden
William C. Bovender
William C. Argabrite
Jimmie Carpenter Miller
Mark S. Dessauer
Gregory K. Haden
Michael L. Forrester
Stephen M. Darden
Edward J. Webb, Jr.
James N.L. Humphreys
Julie Poe Bennett
Suzanne Sweet Cook

Michael S. Lattier
Scott T. Powers
Leslie Tetter Ridings
Laura A. Steel
Christopher D. Owens
Teresa Mahan Lesnak
Matthew H. Wimberley
Kim J. Kinsler
Lillian R. Abboud
Jody P. Mitchell
Senitria A. Goodman
Brandon H. Haren
R. Lee McVey, II

COUNSEL
Thomas R. Wilson
Edwin L. Treadway (Ret.)

Kingsport Office
1212 North Eastman
Road
P.O. Box 3740
Kingsport, TN 37664-
0740
Phone (423) 378-8800
Fax (423) 378-8804

Johnson City Office
1321 Sunset Drive
Building B, Suite 201
Johnson City, TN 37604
Phone (423) 283-6300
Fax (423) 283-6301

Greenville Office
Suite 4, Courtside
Complex
129 West Depot Street
P.O. Box 1743
Greenville, TN 37744
Phone (423) 639-4444
Fax (423) 639-3272

PLEASE RESPOND TO:
KINGSPORT OFFICE

WRITER'S DIRECT DIAL NUMBER:
(423) 378-8858

WRITER'S E-MAIL ADDRESS:
bovender@hsdlaw.com
AMEP/Z.81811

December 13, 2005
VIA FEDERAL EXPRESS

Chairman Ron Jones
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243-0505

RE: TRA Docket No. 05-00313
Application of Appalachian Power Company Seeking Approval for
Certain 2006 Financing Programs

Dear Chairman Jones:

We submit herewith for your information and review the Order entered by the State Corporation Commission of the Commonwealth of Virginia in a companion matter to this Docket 05-00313 which APCO filed with that Commission on November 14, 2005, as amended December 8, 2005. That Commission has approved APCO's application.

We are most hopeful that the TRA will be able to consider APCO's similar petition pending before it at the January 9, 2006 Conference, particularly given the current instability in interest rates.

When we filed a Petition on these financing matters last year at this time, the TRA was willing to consider the matter at the January, 2005 Conference and expedited the issuance of an Order allowing APCO to immediately proceed. While we are not so presumptuous as to assume the subject petition will be approved, any help you may provide in expediting a decision, and, hopefully, an Order, would be greatly appreciated and would have positive implications for APCO and its customers.

Should you have any questions, please contact the writer.

Sincerely,

A handwritten signature in black ink, appearing to read "W. Bovender", with a large, stylized loop at the end.

William C. Bovender

Counsel for Appalachian Power Company

WCB/pl

Enclosures: (13 copies of letter and Virginia Order)

cc: Ms. Colleen Edwards, Interim Chief (via Federal Express, w/encl.)

Mr. Carlos Black (via Federal Express, w/encl.)

William E. Johnson, Esq. (via e-mail, w/out encl.)

James R. Bacha, Esq. (via e-mail, w/out encl.)

Thomas L. Stephens (via e-mail, w/out encl.)

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

AT RICHMOND, DECEMBER 8, 2005

APPLICATION OF

APPALACHIAN POWER COMPANY

CASE NO. PUE-2005-00102

For authority to incur
long-term debt

ORDER GRANTING AUTHORITY

On November 14, 2005, Appalachian Power Company ("APCO" or "Applicant") filed an application with the Virginia State Corporation Commission ("Commission") under Chapters 3 and 4 of Title 56 of the Code of Virginia for authority to issue long-term debt to the public and to an affiliate. In conjunction, Applicant requests authority to enter into one or more interest rate hedging arrangements to protect against future interest rate movements in connection with the long-term debt securities to be issued. Furthermore, APCO requests authority to utilize interest rate management techniques by entering into various Interest Rate Management Agreements ("IRMAs"). Applicant has paid the requisite fee of \$250. On December 8, 2005, APCO filed¹ an Amended Application withdrawing the Chapter 4 portion of its application

APCO proposes to issue secured or unsecured promissory notes ("Notes") up to the aggregate principal amount of \$700,000,000 from time to time through December 31, 2006. The Notes may be issued in the form of First Mortgage Bonds, Senior Notes, Senior or Subordinated Debentures (including Junior Subordinated Debentures), Trust Preferred Securities or other unsecured promissory notes. Within certain limitations, APCO requests flexibility to select specific terms and conditions for the Notes based on market conditions at the time of issuance. The Notes will have maturities of not less than nine (9) months and not more than 60 years. The interest rate may be fixed or variable. The fixed rate of any note shall not exceed by more than 350 basis points the yield to maturity on United States Treasury obligations of comparable maturity at the time of pricing of the Notes. The initial interest rate on any variable rate Note will not exceed 10% per annum.

¹ APCO provided the Amended Application to Commission Staff Counsel, who then transmitted the Amended Application for filing with the Clerk of the Commission at the request of and as an accommodation to the Applicant.

APCO intends to sell the Notes (i) by competitive bidding; (ii) through negotiation with underwriters or agents; or (iii) by direct placement with a commercial bank or other institutional investor. Issuance costs are expected to be less than 1.0% of the principal. The proceeds from the issuance of the Notes will be used to redeem, directly or indirectly, long-term debt; to refund, directly or indirectly, preferred stock; to repay short-term debt; to reimburse APCO's treasury for construction program expenditures; and for other proper corporate purposes.

Trust Preferred Securities would be issued by financing entities, which APCO would organize and own exclusively for the purpose of facilitating certain types of financings such as the issuance of tax advantaged preferred securities. The financing entities would issue Trust Preferred Securities to third parties. APCO requests approval of all necessary authorities to enable the issuance of Trust Preferred Securities.

In conjunction with the issuance of the proposed securities, Applicant requests authority, through December 31, 2006, to enter into one or more interest rate hedging arrangements to protect against future interest rate movements in connection with the issuance of the Notes. Such hedging arrangements may include, but not be limited to, treasury lock agreements, forward-starting interest rate swaps, treasury put options, or interest rate collar agreements ("Treasury Hedges"). All Treasury Hedges will correspond to one or more of the Notes. Consequently, the cumulative notional amount of the Treasury Hedges cannot exceed \$700,000,000.

Finally, APCO requests a continuation of the authority granted in Case No. PUE-2004-00123 to utilize interest rate management techniques and enter into IMRAs through December 31, 2006.² The IRMAs will consist of interest rate swaps, caps, collars, floors, options, hedging forwards or futures, or any similar products designed and used to manage and minimize interest costs. IRMA transactions will be for a fixed period and based on a stated principal amount that corresponds to an underlying fixed or variable rate obligation of APCO. APCO will only enter

² Pursuant to the Commission's Order Granting Authority, dated November 30, 2004, in Case No. PUE-2004-00123, APCO's existing authority to utilize IRMAs is set to expire after December 31, 2005.

IRMAs with counterparties that are highly rated financial institutions. The aggregate notional amount of the IMRAs outstanding will not exceed 25% of APCO's existing debt obligations.

THE COMMISSION, upon consideration of the application, as amended, and having been advised by its Staff, is of the opinion and finds that approval of the amended application will not be detrimental to the public interest.

Accordingly, IT IS ORDERED THAT:

(1) Applicant is hereby authorized to issue and sell up to \$700,000,000 of Notes, from time to time during the period January 1, 2006, through December 31, 2006, for the purposes and under the terms and conditions set forth in the application, as amended by its filing dated December 8, 2005.

(2) Applicant is authorized to enter into the hedging agreements for the purposes set forth in its application and to the extent that the aggregate notional amount outstanding does not to exceed \$700,000,000 during the period January 1, 2006 through December 31, 2006.

(3) Applicant is authorized to enter into IRMAs for the purposes set forth in its application and to the extent that the aggregate notional amount outstanding does not exceed 25% of Applicant's total outstanding debt obligations during the period January 1, 2006, through December 31, 2006.

(4) Applicant shall not enter into any IRMA or hedging transaction involving counterparties having credit ratings of less than investment grade.

(5) Applicant shall submit to the Clerk of the Commission a preliminary Report of Action within ten (10) days after the issuance of any security pursuant to this Order to include the type of security, the issuance date, the amount of the issue, the interest rate or yield, the maturity date, and any securities retired with the proceeds.

(6) Applicant shall submit to the Clerk of the Commission a preliminary Report of Action within ten (10) days after it enters into any hedging agreement or IRMA pursuant to Ordering Paragraphs (2) and (3) to include: the beginning and, if established, ending dates of the agreement, the notional amount, the underlying securities on which the agreement is based, an

explanation of the general terms of the agreement that explain how the payment obligation is determined and when it is payable, and a calculation of the cumulative notional amount of all outstanding IRMAs as a percent of total debt outstanding.

(7) Within 60 days after the end of each calendar quarter in which any security is issued pursuant to this Order, Applicant shall file with the Clerk of the Commission a more detailed Report of Action to include: the type of security issued, the date and amount of each series, the interest rate or yield, the maturity date, net proceeds to Applicant, an itemized list of expenses to date associated with each issue, a description of how the proceeds were used, a list of all hedging agreements and IRMAs associated the debt issued, and a balance sheet reflecting the actions taken.

(8) Applicant's Final Report of Action shall be due on or before March 1, 2007, to include the information required in Ordering Paragraph (7) in a cumulative summary of actions taken during the period authorized.

(9) This matter shall remain under the continued review, audit, and appropriate action of this Commission.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to: William E. Johnson, Senior Counsel, American Electric Power, 1 Riverside Plaza, Columbus, OH 43215-2372; and to the Commission's Office of General Counsel and the Division of Economics and Finance.